CC 95-60

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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN REPLY REFER TO: 1600E

December 6, 1995

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

DOCKET FILE COPY ORIGINAL

Mr. Richard Braun
Ernst & Young L.L.P
Gateway I, Suite 1400
701 Market Street
St. Louis, Missouri 63101

Re: Expense Limit Survey
CC Docket No. 95-60

Dear Mr. Braun:

On May 31, 1995, the Commission released a Notice of Proposed Rulemaking ("NPRM") to amend Part 32 of the Commission's rules to raise the expense limit for certain items of equipment from $500 to $750. In conjunction with this NPRM, we determined that it would be prudent to survey other industries, both regulated and nonregulated, regarding their capitalization policies. We hope that you can assist us in our survey by providing information on a sampling of nonregulated, nontelecommunications companies that your CPA firm has a client. This information will assist us in determining an appropriate expense limit.

We have prepared a brief questionnaire regarding the capitalization policies of other industries. We would appreciate your assistance in completing this questionnaire for five mid to large sized companies. We would prefer that you identify each of the five companies by name, however, if such information is proprietary, identifying by industry or type of activity would be acceptable. We would appreciate a response by December 21, 1995. Please send your response to: Kenneth M. Ackerman; Chief, Accounting Systems Branch; Federal Communications Commission; 2000 L St., N.W., Room 812; Washington, D.C. 20554. If you have any questions please contact either Debbie Weber or Tom Petras of my staff at 202-418-0810. We thank you in advance for your cooperation.

Sincerely,

Kenneth M. Ackerman

Kenneth M. Ackerman
Chief, Accounting Systems Branch

Attachment

No. of Copies rec'd 1
List A B C D E

Company Name (Optional)______________________________
Type of Business (i.e. manufacturing, transportation, retail) ______________________
Size of Company
Do annual Gross Revenues exceed $100 million for this company? Yes___ No___

1. The FCC proposes to increase the expense limit for telecommunications common carriers from $500 to $750 for items included in the following accounts: motor vehicles, aircraft, special purpose vehicles, garage work equipment, other work equipment, furniture, office equipment, and general purpose computers. Does your client company or industry have an expense limit for such items?

2. If your client has an expense limit, what is it? If this information applies to an industry, do the companies have different expense limits based on the company size (such as Class A & B telephone companies)? If so, what are those levels?

3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be?

4. Do <u>you</u> ever question the reasonableness of your client company's expense limit? If so, what guidelines do you consider?

5. Does your client company's expense limit cover assets other than those listed in question 1? If so, what other assets are covered?

6. When was the last time your client company increased its expense limit?

7. When your client company increased its expense limit, what factors were considered?

8. What internal controls does your client company currently have in place for tracking assets?

9. What types of internal controls does your client company have for tracking items that are expensed?

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ERNST & YOUNG LLP

■ Gateway One
Suite 1400
701 Market Street
St. Louis, Missouri 63101

■ Phone: 314 259 1000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

January 18, 1996

Mr. Kenneth M. Ackerman
Chief, Accounting Systems Branch
Federal Communications Commission
2000 L Street, N.W., Room 812
Washington, D.C. 20554

Dear Mr. Ackerman:

Pursuant to your request, in your letter dated December 6, 1995 related to capitalization policies of other industries, we have included herewith five completed questionnaires based upon discussions with our clients.

If you have any questions regarding this information, please contact me at (314) 259-1011 or Laura Lawler of our office at (314) 259-1087.

Very truly yours,

Rick Braun

Richard W. Braun
Partner

rs

Enclosures

No. of Copies rec'd 1
List ABCDE

Company Name (Optional)____________________________
Type of Business (i.e. manufacturing, transportation, retail) ____________________
Size of Company
Do annual Gross Revenues exceed $100 million for this company? Yes___ No___

1. The FCC proposes to increase the expense limit for telecommunications common carriers from $500 to $750 for items included in the following accounts: motor vehicles, aircraft, special purpose vehicles, garage work equipment, other work equipment, furniture, office equipment, and general purpose computers. Does your client company or industry have an expense limit for such items?

2. If your client has an expense limit, what is it? If this information applies to an industry, do the companies have different expense limits based on the company size (such as Class A & B telephone companies)? If so, what are those levels?

3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be?

4. Do you ever question the reasonableness of your client company's expense limit? If so, what guidelines do you consider?

5. Does your client company's expense limit cover assets other than those listed in question 1? If so, what other assets are covered?

6. When was the last time your client company increased its expense limit?

7. When your client company increased its expense limit, what factors were considered?

8. What internal controls does your client company currently have in place for tracking assets?

9. What types of internal controls does your client company have for tracking items that are expensed?

See attached responses to above questionnaire.

FCC SURVEY RESPONSE

Manufacturing
Annual revenue exceeds $100 million

1. Yes.

2. All items below $1,000 are expensed. No. N/A.

3. Determined by management.

4. Yes. We consider the likelihood of net income and assets being materially misstated as a result of the expense limit being too high.

5. No. N/A.

6. 1990

7. Primarily materiality to financial statements and inflation factors.

8. An expenditures authorization (EA) form is prepared for all capital expenditures and must be approved by the general manager. On a monthly basis, an expenditure detail report is prepared for each EA project and distributed to management. The expenditure detail report lists all charges associated with the EA project. When a project is complete, a journal entry is prepared and reviewed by management to capitalize or expense the item.

9. See #8 above.

FCC SURVEY RESPONSE

Manufacturing/assembly
Annual revenue exceeds $100 million

1. Yes.

2. Minimum unit cost of $1,500 or more.

3. Determined by management.

4. Materiality to financial statements.

5. Buildings, equipment, land, land improvements.

6. July 6, 1995.

7. Inflation/materiality.

8. Controls within fixed asset computer system/fixed asset reconciliations/quarterly management review.

9. Fixed asset system budget constraints.

FCC SURVEY RESPONSE

Manufacturing
Annual revenue exceeds $100 million

1. Yes.
2. Limit is $1,000.
3. Determined by management.
4. Materiality to the financial statements.
5. Yes, all fixed assets, equipment, land improvements, buildings, leasehold improvements and trucks.
6. July 1, 1994
7. Mainly inflationary factors.
8. Fixed asset systems and job cost systems asset physical inventories every 3 years.
9. Review by property accounting staff and by site controllers.

FCC SURVEY RESPONSE

Manufacturing
Annual revenue exceeds $100 million

1. Yes
2. No different levels - $2,000 or life of less than 1 year.
3. Determined by management.
4. Based on materiality.
5. Policy covers all assets.
6. 1991
7. Limit was determined internally through discussion with executive V.P., Controller, and Accounting Manager. Consideration given to number of factors including items being capitalized and materiality to company.
8. Larger items are tagged. Accounting notified when disposals are made. Engineering responsible for machinery and equipment.
9. Item by item basis. All requisitions are reviewed by department head and purchasing manager. Accounting reviews account distribution on all invoices.

FCC SURVEY RESPONSE

Manufacturing
Annual revenue exceeds $100 million

1. Yes

2. Company has the following limits for assets with estimated useful life in excess of twelve months:

Asset Type	Expense Limit
Furniture, fixtures & other	$1,000
Machinery, equipment & buildings	3,000
Specified other assets	5,000

3. Determined by management.

4. Debt covenant restrictions on capital spending require client to closely track capital spending.

5. Yes, as noted above, limits apply to all assets with useful life in excess of 12 months.

6. Per client, limits have been in place for at least five to ten years.

7. Information not readily available.

8.
   A. Fixed asset inventory required every three years at all locations.

   B. All capital projects must go through detailed approval process at division and corporate level. Ultimate approval rests with BOD for all projects in excess of $25,000.

   C. Budget to Actual Analysis - Overruns on projects are scrutinized closely.

   D. Internal Audit performs audits of all capital projects within three years of completion.

9. Expense items over $15 K require same approval process as capital projects.